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S E C R E T SECTION 01 OF 02 BAKU 000763

SIPDIS

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TAGS: [PGOV](#) [ECON](#) [ENRG](#) [AJ](#) [IZ](#) [IR](#)

SUBJECT: IRAN: STEEL SECTOR OUTPUT DECLINES AMIDST PURGES;
OIL REFINERY OUTPUT ALSO ALLEGEDLY DECLINING

Classified By: PolEcon Counselor Rob Garverick, Reasons 1.4 (b) and (d)

Summary

1. (S) A Baku Iran watcher contact with a wide range of energy sector and government contacts briefed Iran watcher on his recent trip to Tehran and Isfahan, where he met with energy contacts and key economic figures. In Isfahan he met with the Chairman of Iran's biggest steel company, who told him that steel production is declining, and alleged that large numbers of steel sector staff associated with Mousavi and (former Intelligence Minister) Mohseni-Eje'i are being purged and replaced with Ahmedinejad loyalists. Citing refinery contacts, the energy sector contact also reported that a large reductions in output have occurred at major Iranian oil refineries since June, 2009 and that these declines may be continuing. He noted that Iran possesses significant oil storage infrastructure, but denied recent rumors that large amounts of gasoline arriving from Iraq are currently being moved into these facilities. End Summary.

2. (S) Baku Iran watcher met on September 17 with Vahid, a successful Baku-based international energy sector businessman, originally from Isfahan. Vahid explained that he had returned the previous day from a visit to Tehran and Isfahan, where he held a number of meetings with various political and business contacts, including a Mousavi advisor, Isfahani notables, and the Chairman of the National Iranian Steel Company (NISC).

Alleged Purge at State Steel Industry

3. (S) Vahid said that he met in Isfahan on Sunday, September 13 with his "longtime friend," Mohammed Raja'ei, Chairman of the Mobarakeh Steel company (Iran's largest), and Director of National Iranian Steel Company (NISC). He said that Raja'ei told him that steel production at Mobarakeh has declined by more than twenty-two percent since June, which he attributed to continuing unrest and instability related to post-election protests. He said that Raja'ei also complained that a large purge of experienced staffs is underway, initially targeting suspected Mousavi supporters, but more recently including persons associated with former Intelligence chief Gholam-Hussein Mohsen-Eje'i (with whom Raja'ei is himself reportedly close).

4. (S) Vahid added that Raja'ei expressed fear that a plan is being implemented to replace these people with pro-Ahmadinejad people who have Hezbollah or Basij

organization ties. (Note: After four years as Intelligence Minister, Mohsen-Eje'i was fired by Ahmadinejad on July 26, 2009. Although considered to be (like Ahmadinejad) a follower of Ayatollah Mesbah-Yazdi relations between the two have reportedly become increasingly strained, and Mohsen-Eje'i opposed Ahmadinejad's attempted appointment of Esfandiar Mashe'i as First Vice President. On August 24, 2007, the new Judiciary chief, Ayatollah Sadegh Larijani, appointed Mohsen-Eje'i as Iran's Prosecutor-General. End Note).

Oil Refinery Production Down; Gasoline From Iraq -----

15. (S) Citing Ministry of Oil and Bandar Abbas Refinery sources, Vahid related that oil refinery production has fallen by 15-20 percent since June at Bandar Abbas, Tehran, and Tabriz refineries, with no sign of improvement. He attributed this decline to work slowdowns and general disruption relating to post-election instability.

16. (S) Asked about rumors that the Revolutionary Guard/Iranian government has begun pre-positioning large amounts of gasoline obtained from (or via) Iraq against the possibility of a future gasoline embargo, Vahid noted that Iran has considerable unused oil and gasoline storage facilities dating from the time of the Iran-Iraq war, and that these could theoretically be used to pre-position large amounts of gasoline prior to sanctions. (Note: Vahid subsequently contacted Iran watcher to report that he had just checked on this issue with some Ministry of Oil supply

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and storage officials in Tehran and Kermanshah, and said that these had no knowledge of the rumored large movements of gasoline into Iran from Iraq or elsewhere. He promised to keep checking on this issue. End Note).

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